Section 1.6

**Activity 1.6.1**

1. Two problems Ben might face operating at full capacity include:

* The business cannot take on new orders
* There is a risk of capital breaking down
* Pressure on employees.

1. Buying in a new machine means the business maintains control over supply and does not rely on another business.
2. Cost advantages of the business expanding its scale of production might be:

* Buying in bulk
* Selling in bulk
* More efficient, larger scale capital.

Activity 1.6.2

1. ‘Internal growth’ is the expansion of a business by means of opening new branches, shops or factories (also known as organic growth).
2. Starbucks may have adopted such a rapid growth strategy to:

* Gain advantage over competitors by being first into the market
* Exploit economies of scale to give it a cost advantage.

1. Advantages of focusing growth in China might be:

* The large number of potential customers
* A lack of strong potential competition
* Relatively low set-up costs.

1. The potential economies of scale Starbucks might get from further expansion might be:

* Purchasing economies – buying in bulk
* Technical economies – larger-scale capital
* Financial economies – access and cost of attracting funds
* Marketing economies – spreading advertising and promotion costs
* Managerial economies – attract specialist managers.

**Activity 1.6.3**

1. In the case studies, Jet Airways/Air Sahara and Mercedes-Benz/Chrysler are both horizontal integration.
2. a. If Jet Airways merges with an aircraft manufacturer this would be vertical integration.

b. Benefits of this merger for Jet Airways might be:

* Reliability of supply
* Control over the price paid for aircraft
* Control over the design requirements of aircraft.

1. The takeover by Jet Airways of Air Sahara might have the following advantages for:

* Consumers – lower prices because of economies of scale
* Shareholders – potential to achieve higher profits and dividends
* Employees – prospect of new job opportunities in a larger company.

The disadvantages might be:

* Consumers – higher prices if Jet Airways has more control over the market
* Shareholders – the cost of the takeover might initially reduce dividends
* Employees – takeovers often mean redundancies.

**Activity 1.6.4**

1. A ‘franchise’ is a business that uses the name, logo and trading systems of an existing business.
2. The benefits Harry would enjoy if he opened a franchised Pizza Delight restaurant might be:

* Established brand name
* Successful production system
* Purchasing economies of scale.

1. Drawbacks of Harry agreeing to the terms of the franchise contract might be:

* Purchasing solely from only one source might be at a higher price than the competition
* The cost of the annual payment
* Losing independence over things like the design of the restaurant.

1. The reason for Harry to take out the franchise might be:

* Established brand name
* Successful production system
* Purchasing economies of scale
* National advertising
* Staff training.

The disadvantages might be:

* Purchasing solely from only one source might be at a higher price than the competition
* The cost of the annual payment
* Losing independence over things like the design of the restaurant
* New franchises might set up to provide competition
* Harry has to accept any changes made by Pizza Delight.

**Activity 1.6.5**

1. A ‘subsidiary’ is where one business owns and controls another business.
2. Possible benefits to Borges of establishing operations in India might be:

* A large number of potential customers
* The lack of strong potential competition
* Relatively low set-up costs.

1. Problems Borges might encounter setting up in India might be:

* Government regulations
* Cultural challenges in production, like language
* Different tastes of Indian consumers.

Activity 1.6.6

1. Two multinational companies that have located in South Africa are:

* BMW
* Ford.

1. Possible reasons for multinational companies setting up in South Africa might be:

* A large number of potential customers
* The lack of strong potential competition
* Relatively low set-up costs because of low land costs.

1. Possible benefits to South Africa from investment by multinational companies might be:

* Employment prospects
* Access to goods produced in South Africa rather than imported
* Export revenue from goods exported by the multinational.

1. The South African government should continue to support investment by multinational businesses in its economy because of the following possible advantages:

* Employment prospects
* Access to goods produced in South Africa rather than imported
* Export revenue from goods exported by the multinational
* Improvements in infrastructure
* Revenue for linked businesses
* Increased tax revenue.

There are, however, the following disadvantages:

* Repatriated profits
* Managerial jobs might go to the citizens of the multinational’s home country
* Environmental concerns
* Exploitation of workers.

**Exam practice question**

1. A ‘merger’ is where two firms agree to join together as one firm with a single group of shareholders.
2. Average cost of production might fall as a business increases its scale of production because of economies of scale like purchasing and technical economies.
3. A potential benefit to consumers of steel from a takeover of Corus by Tata might be:

* Lower prices because of lower unit costs from economies of scale

A potential drawback might be:

* Higher prices as Tata exploits its market power (monopoly) position benefit.

1. Indian consumers might benefit from more shops being owned by larger retail businesses because of:

* Lower prices due to lower unit costs from economies of scale
* Being able to buy from a familiar branded store
* Larger shops can invest more in stores to improve the shopping experience.

The disadvantages might be:

* Higher prices if larger shops experience higher unit costs because of diseconomies of scale
* Higher prices if larger firms exploit their market power
* Less choice from a more limited range of shops.

**Key concept question**

Globalisation might have had the following effects on the activities of a multinational organisation:

* Increased number of potential customers
* More diverse range of consumers
* Changing taste and preferences of consumers
* Increased level of competition
* Ability to access employees from different countries
* Attitudes of employees change
* Ability to set up and produce in different countries
* Access to an increasing range of suppliers
* Government regulation on business change.